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FISCAL IMPACT STATEMENT

LS 7829
BILL NUMBER: SB 414

NOTE PREPARED: Jan 10, 2005
BILL AMENDED:

SUBJECT: EDGE Credit Applications.

FIRST AUTHOR: Sen. Ford
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides that, in evaluating an application submitted after December 31, 2005, for an Economic Development for a Growing Economy (EDGE) Tax Credit, the EDGE Board shall determine the extent to which the average compensation paid by the applicant to its employees exceeds the average compensation paid to employees working in the same industry sector in the county in which the applicant's project is or will be located. (Current law requires the Board to determine the extent to which the average compensation exceeds the average compensation paid to all employees in the county.)

Effective Date: July 1, 2005.

Explanation of State Expenditures: The bill could potentially broaden eligibility and expand the applicant pool for EDGE credits relating to job creation and retention projects. This may increase the number of applications for EDGE credits and the number of EDGE credits awarded annually. This could potentially create additional administrative demands on the Indiana Economic Development Corporation (IEDC). While under current statute the Indiana Department of Commerce (IDOC) provides administrative support to the EDGE Board, the IDOC is abolished on July 1, 2005, and all economic development functions are to be transferred to the IEDC. The November 4, 2004, state staffing table indicates that the Indiana Department of Commerce (IDOC) has 31 vacant full-time positions, including regional office positions. To the extent that these vacant positions are transferred to the IEDC on July 1, 2005, they could potentially be utilized to assist in meeting these demands.

Explanation of State Revenues: The bill changes the average compensation standards for businesses seeking EDGE credits for *job creation* and *job retention* projects. The bill also changes this standard for nonprofit entities that are *high growth with high skilled jobs* that are seeking EDGE credits. These changes would be effective for EDGE credit applications beginning in 2006. The bill changes the current average compensation standard by linking it to the average compensation paid to employees working in the same industry sector in the county where the business's project is located. Under current statute, the standard is linked to the average compensation for all employees in the county where the business's project is located. The industry sector of the business would be defined according to the North American Industry Classification System (NAICS). These changes could potentially increase the revenue loss from EDGE credits. However, the magnitude of this loss is indeterminable.

Background: Under current statute, businesses that (1) create new investment and jobs in Indiana or (2) undertake projects to retain existing jobs in Indiana are eligible for EDGE credits. As it applies to investment that creates new jobs, the EDGE Program is designed to provide a revenue-neutral incentive for businesses to create new investment and jobs in Indiana. Such businesses receive credits equal to the individual income taxes withheld for employees filling the newly created positions. Since revenue from these employees would not have been collected in the absence of the new development, the state does not incur a net loss by redistributing the incremental income tax revenue as tax credits to businesses. For job retention projects, no new revenue would be realized since no new jobs would be created. As a result, EDGE credits for job retention are paid from existing revenues, resulting in a net loss to the state equal to the amount of EDGE credits granted to businesses for job retention. However, if a business were to select a more profitable alternative project site and move out of Indiana, there could be an even greater loss of revenue from the reduction in individual (employee's) and corporate taxes.

EDGE credits may be taken against a taxpayer's Adjusted Gross Income Tax, Insurance Premiums Tax, or Financial Institutions Tax liabilities. The duration of the credit may not exceed ten taxable years.

In 2003, the EDGE Board approved approximately $28.8 M in new credits for job creation to be used over a period of years. The credits were awarded for 16 projects expected to create 6,823 new jobs. The EDGE Board also approved $2.0 M in new credits for job retention, also to be used over a period of years. The credits were awarded for 2 projects expected to retain 2,450 jobs. From 1994 to 2003, EDGE credits for job creation were approved for 114 projects. During those years, approximately $132.4 M in EDGE credits for job creation were made available, with the total amount of credits certified so far equal to about $81.3 M. Approximately $38.2 M in EDGE credits for job creation were available for approved projects in tax year 2003. EDGE credits for job retention were awarded for the first time in 2003. Revenue from the AGI Tax on corporations, the Insurance Premiums Tax, and the Financial Institutions Tax is distributed to the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue, Indiana Economic Development Corporation, EDGE Board.

Local Agencies Affected:

Information Sources: Indiana Department of Commerce, *2003 EDGE Annual Report*, March 31, 2004; *2003*

EDGE for Retention Annual Report, March 31, 2004.

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